VIDEO GAMBLING TAX
General Fund Revenue Estimate

Revenue Description

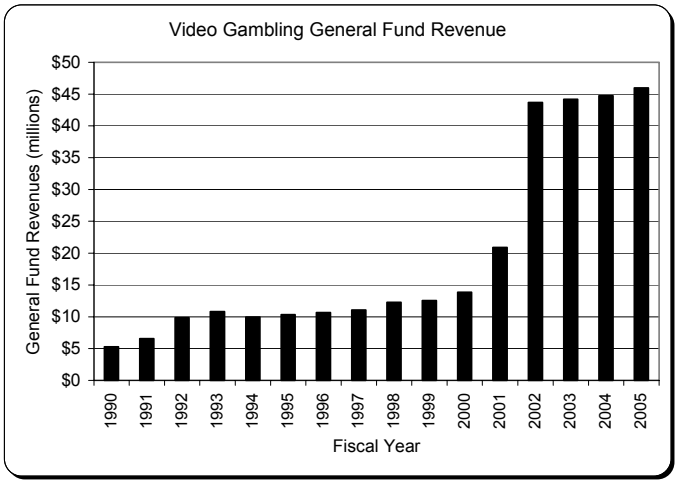
Section 23-5-610, MCA, establishes the Video Gambling Machine Gross Income Tax. It is a tax applied to the gross machine income received from video poker and keno machines. Gross machine income is the difference between total receipts from a machine minus its cash payouts. The tax rate is 15% of gross machine income. Tax collections are deposited in the state general fund.

Historical and Projected Revenue

Table 1 shows historic and projected general fund revenue from the video gambling tax for fiscal years 1990 through 2005.

Table 1
Historical and Projected Video Gambling - General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1990	$5.303	
A	1991	$6.551	23.54%
A	1992	$9.875	50.74%
A	1993	$10.818	9.55%
A	1994	$9.955	-7.98%
A	1995	$10.346	3.92%
A	1996	$10.666	3.09%
A	1997	$11.073	3.82%
A	1998	$12.256	10.68%
A	1999	$12.559	2.47%
A	2000	$13.851	10.29%
A	2001	$20.891	50.83%
A	2002	$43.666	109.01%
F	**2003**	**$44.182**	**1.18%**
F	**2004**	**$44.742**	**1.27%**
F	**2005**	**$45.977**	**2.76%**



As Table 1 shows, general fund revenues from the video gambling tax increased each year from fiscal year 1994 through 2002. Video gambling tax is estimated to increase 1.18% in fiscal 2003, 1.27% in fiscal 2004, and 2.76% in fiscal 2005.

HB124 (2001) changed the distribution of the video gambling tax. Prior to the fourth quarter in fiscal 2001, two-thirds of the tax was distributed to the county or municipal government where the machine was located and one-third of the tax was deposited in the state general fund. Beginning with the fourth quarter estimated accrual of fiscal 2001, the tax collections are deposited in the state general fund. This change in distribution of the tax explains the large increase in general fund revenue in fiscal years 2001 and 2002.

Forecast Methodology and Projected Calculation

There are three steps in estimating general fund revenue from the video gambling tax: 1) forecast gross machine income; 2) forecast total credits under HB109 (1999); and 3) apply the tax rate and subtract the credits taken to derive general fund revenues.

Step 1: Calculate Gross Machine Income

Gross machine income is the difference between total receipts from all video gambling machines and cash payouts. Multiplying gross machine income by the tax rate and then subtracting credits closely approximates general fund revenue for each fiscal year. Actual general fund revenue differs slightly due to penalties assessed and refunds given by the Department of Justice. Neither penalties assessed or refunds have a significant impact on tax collections.

The growth rate in gross machine income in the first quarter of fiscal 2003 from the fourth quarter of fiscal 2002 is -2.1%. (This is the first negative growth rate over the last thirteen years between these quarters.) Additionally, the growth rate in gross machine income in the first quarter of fiscal 2003 from the first quarter of fiscal 2002 is 0.5%, which represents the lowest growth rate over the last thirteen years. These growth rates indicate that the continual growth in gross machine income over the years may be slowing in fiscal 2003.

Table 2 displays gross machine income growth rates for the growth in first quarter gross machine income over the immediately preceding fourth quarter; the growth in first quarter gross machine income over the prior year first quarter; and the growth in total gross machine income for fiscal years 1991 through 2003.

Table 2
Gross Machine Income Growth Rates:
Growth in 1st Qtr over 4th Qtr of Prior Year; Growth in 1st Qtr over Prior Year 1st Qtr; and Growth in Total Gross Machine Income

	Growth		
Fiscal Year	1st Qtr Over 4th Qtr PY	1st Qtr Over PY 1st Qtr	Total Gross Machine Income
1991	4.4%	24.5%	20.9%
1992	4.8%	19.2%	18.0%
1993	6.2%	14.2%	10.6%
1994	5.8%	11.2%	12.0%
1995	3.8%	6.7%	4.3%
1996	2.0%	1.9%	2.7%
1997	3.6%	4.9%	5.0%
1998	4.5%	7.9%	8.5%
1999	1.7%	3.2%	3.7%
2000	1.6%	6.5%	6.7%
2001	2.5%	3.8%	2.5%
2002	2.6%	4.1%	5.1%
2003	-2.1%	0.5%	**1.2%**

The annual growth rates for gross machine income are highly correlated with first quarter growth rates over the prior year's first quarter. Regression analysis was used to forecast the fiscal year 2003 growth rate based on this relationship. Regression analysis produces a statistic called the *coefficient of determination* (R^2) that provides an indication of how well the regression formula is likely to forecast revenue. An R^2 of 1.0 would suggest a perfect functional relationship between the growth in total gross machine income and growth in gross machine income in the first quarter over the

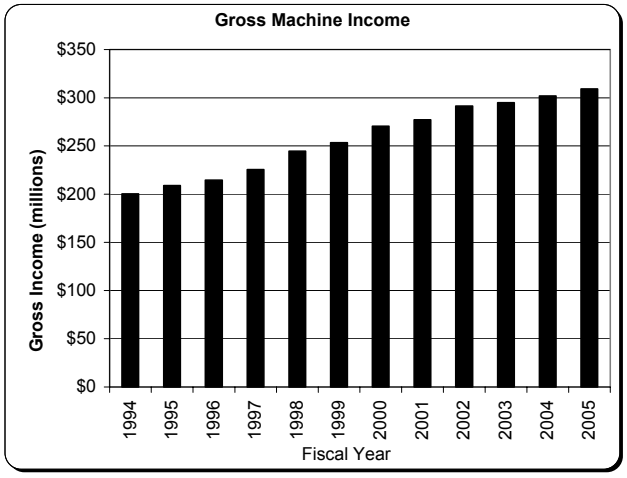
prior year first quarter. The regression analysis resulted in an R^2 of 0.96, indicating that this regression produces a very good fit. In other words, there is a very strong and, therefore, predictable relationship between growth in total gross machine income and growth in gross machine income in the first quarter over the prior year first quarter. The total gross machine income growth rate for fiscal 2003 is estimated to be 1.2%, as shown in Table 2.

Fiscal years 2004 and 2005 estimated gross machine income is derived by using half of the average annual growth rate over fiscal years 1994 through 2002, which is 2.4%. This projected annual growth rate takes into consideration the current forecasts for the national economy and Montana income tax revenue, which are expected to rebound from slow growth in fiscal years 2004 and 2005. Additionally, over this period Montana may be experiencing a growth in tourism in the state due to the Lewis and Clark Bicentennial festivities. A portion of these tourists will probably take part in video gaming activities.

Table 3 shows actual and forecast gross machine income for fiscal years 1990 through 2005.

Table 3
Gross Machine Income
(millions)

	Fiscal Year	Gross Machine Income	Percent Change
A	1990	$113.4	
A	1991	$137.0	20.89%
A	1992	$161.7	18.01%
A	1993	$178.9	10.63%
A	1994	$200.4	11.97%
A	1995	$209.0	4.31%
A	1996	$214.7	2.71%
A	1997	$225.4	5.00%
A	1998	$244.5	8.48%
A	1999	$253.5	3.68%
A	2000	$270.5	6.70%
A	2001	$277.2	2.48%
A	2002	$291.4	5.11%
F	**2003**	**$294.9**	**1.21%**
F	**2004**	**$301.9**	**2.40%**
F	**2005**	**$309.2**	**2.40%**



Gross machine income is estimated at $294.9 million in fiscal 2003, $301.9 million in fiscal 2004, and $309.2 million in fiscal 2005.

Step 2: Calculate HB109 (1999) Tax Credit

HB109 authorized the Department of Justice to operate and maintain an automated accounting and reporting system (AARS) for video gambling machines.

HB109 offers a $250 tax credit per machine to update the machine to use AARS. The Department of Justice has estimated the number of machines that will be eligible for the tax credit for each quarter of each fiscal year.

Table 4 shows the projected HB109 tax credit over the forecast period to be $50,000 in fiscal 2003, $550,000 in fiscal 2004, and $400,000 in fiscal 2005.

Table 4
HB109 Tax Credit Impact Calculation
Fiscal Years 2003 through 2005

Fiscal Year	Machines		Tax Credit		Total Tax Credit
FY2003					
Q1	0	X	$250	=	N/A
Q2	0	X	$250	=	N/A
Q3	0	X	$250	=	N/A
Q4	200	X	$250	=	$ 50,000
			Total		**$ 50,000**
FY2004					
Q1	600	X	$250	=	$ 150,000
Q2	600	X	$250	=	$ 150,000
Q3	600	X	$250	=	$ 150,000
Q4	400	X	$250	=	$ 100,000
			Total		**$ 550,000**
FY2005					
Q1	400	X	$250	=	$ 100,000
Q2	400	X	$250	=	$ 100,000
Q3	400	X	$250	=	$ 100,000
Q4	400	X	$250	=	$ 100,000
			Total		**$ 400,000**

Step 3: Calculate General Fund Video Gambling Tax Revenue

Table 5 shows the general fund revenue calculation for video gambling machine tax for fiscal years 2003 through 2005. Video gambling machine income from Table 3 multiplied by the tax rate yields gross tax collections. Gross tax collections minus the tax credit from Table 4 yields general fund revenue.

General fund revenue over the forecast period is $44.182 million for fiscal 2003, $44.742 million for fiscal 2004, and $45.977 million for fiscal 2005.

Table 5
Calculation of General Fund Video Gambling Tax
Fiscal Years 2003 through 2005

Description	FY 2003 Estimated	FY 2004 Estimated	FY 2005 Estimated
Video Gambling Income	$ 294,880,797	$ 301,947,268	$ 309,183,079
Multiply by Tax Rate	15%	15%	15%
Gross Tax Collections	$ 44,232,120	$ 45,292,090	$ 46,377,462
Minus Tax Credit	$ 50,000	$ 550,000	$ 400,000
General Fund Revenue	**$ 44,182,120**	**$ 44,742,090**	**$ 45,977,462**

Data Sources

The general fund revenue data can be obtained from SBAS form 635, revenue class 635, and SABHRS Report MTGL0109. The Department of Justice provided the data on gross video gambling income and the number of machines expected to take the tax credit under HB109.